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Administration Of Marine Corps
Debt And Payment Claims B-117604(2)
Can Be Improved

Marine Corps Finance Center

**UNITED STATES
GENERAL ACCOUNTING OFFICE**

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FEB. 2, 1973

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

TRANSPORTATION AND
CLAIMS DIVISION

GAO 00280

B-117604(2)

Dear Mr. Secretary:

We reported to you November 24, 1969 (B-117604(2)), on our review of the administration of claims operations at the Marine Corps Finance Center, Kansas City, Missouri. In view of the enactment of the Federal Claims Collection Act of 1966, which became effective on January 15, 1967, we were specifically interested in the Center's compliance with the act, the implementing Joint Standards, and the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies. 2. 363

This report deals with our followup review at the Center concerning our recommendations for changes in the Center's instructions pertaining to the collection of debts due the Government and to claims against the Government and for changes in actual operations.

We discussed our findings with Center officials and generally they agreed to take corrective action.

Copies of this report are being sent to the Director, Office of Management and Budget.

Sincerely yours,

Director, Transportation and
Claims Division

The Honorable
The Secretary of the Navy

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GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARY
OF THE NAVY

ADMINISTRATION OF MARINE CORPS
DEBT AND PAYMENT CLAIMS
CAN BE IMPROVED
Marine Corps Finance Center
B-117604(2)

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) made this followup review to ascertain whether the Marine Corps Finance Center, Kansas City, Missouri, had followed recommendations made in the GAO report to the Secretary of the Navy on November 24, 1969.

GAO was specifically interested in the Center's compliance with the GAO Policy and Procedures Manual for Guidance of Federal Agencies and the Joint Standards issued under the Federal Claims Collection Act of 1966.

FINDINGS AND CONCLUSIONS

Debt claims

The Center's written procedures for the Settlement Branch, dated June 1, 1971, generally were consistent with the GAO manual and the Joint Standards. GAO noted, however, that two provisions did not conform with the Joint Standards. (See p. 4.)

Debt claims operations were satisfactory for the most part, but GAO said the Center should:

- Obtain information on assets of debtors involved in bankruptcy proceedings. (See p. 6.)
- Follow the GAO manual in filing proofs of claims in bankruptcy cases over \$400. (See p. 6.)

- Instruct debtors on the execution of confess-judgment notes. (See p. 6.)
- Attempt to solicit compromise offers. (See p. 7.)
- Process demand letters and follow-up actions in a timely manner. (See p. 8.)
- Monitor suspended claims. (See p. 10.)
- Take action on 1,400 claims against unlocated debtors. (See p. 10.)
- Reduce its backlog of unaudited claims. (See p. 11.)
- Record collections promptly. (See p. 12.)

Payment claims

Although instructions relating to payment claims generally were consistent with the manual, GAO pointed out that some changes should be made. (See p. 15.)

GAO was satisfied that determinations on payment claims were made at a responsible level. It called attention to the GAO manual requirement that reclaims be sent to GAO unless it is determined administratively that the action taken was in error and can be corrected by the administrative office. (See pp. 18 and 19.)

SUGGESTIONS AND RECOMMENDATIONS

The report contains suggestions and specific recommendations to the Secretary of the Navy. (See pp. 14 and 17.)

In general the Center should:

- Process bankruptcy claims over \$400 in accordance with the GAO manual.
- Retain all documents substantiat-

ing actions on claims.

- Solicit compromise offers, when appropriate, and especially on claims under \$200 which ordinarily are not for reporting to us.
- Stress the importance of timely collection actions.
- Reduce its backlog.
- Revise procedures to conform with the GAO manual.

CHAPTER 1

INTRODUCTION

The Federal Claims Collection Act of 1966 placed primary responsibility on Government agencies for collecting debts owed to the United States and, for debts amounting to \$20,000 or less, vested agencies with authority to compromise or terminate or suspend collection action when further collection efforts do not appear to be economically justifiable. Joint Standards issued by the Comptroller General and the Attorney General of the United States were to be used by agencies as a guide in promulgating their own regulations.

CHAPTER 2

REVIEW OF INSTRUCTIONS RELATING TO DEBT CLAIMS

The Marine Corps Finance Center's written procedures for collecting debt claims entitled "Standing Operating Procedures for the Settlement Branch, Examination Division, Marine Corps Finance Center" were issued on June 1, 1971. We reviewed these procedures and compared them with the requirements of the Joint Standards and with title 4 of the General Accounting Office (GAO) Policy and Procedures Manual for Guidance of Federal Agencies. The Center's procedures generally agree with the above-cited requirements, and they also include the changes recommended in our November 24, 1969, report. Two provisions in the current procedures, however, should be revised.

Part B, section II.c.(1)(a-c), provides that collection may be temporarily suspended in any of three instances. The second instance, that the statute of limitations has not expired, is not in itself sufficient justification for suspending collection action under section 104.2 of the Joint Standards, but must be linked with other factors.

Subparagraphs (a) through (f) of part B, section II.c.(2), set out the conditions for terminating collection action. Subparagraphs (d) and (e) provide, respectively, that collection action be terminated "when it is determined that sufficient evidence is not available to prove the claim or the necessary witnesses are unavailable" and because "efforts to induce voluntary payments are unavailing." Under section 104.3 (e) of the Joint Standards, these two conditions are coupled and should not be considered independently as causes for termination action.

We discussed these provisions with Center officials and corrective action was taken.

CHAPTER 3

REVIEW OF DEBT CLAIMS OPERATIONS

To ascertain whether the Center was taking collection action in accordance with the Joint Standards and title 4 of the GAO manual, we randomly selected active and uncollectible claims. We examined these claims to determine whether the Center was: (1) sending timely demand letters and replying to debtors' correspondence, (2) properly administering the collection of debts being paid by installments, (3) attempting to obtain current addresses for unlocated debtors, (4) collecting by offset, and (5) arranging for assistance in collecting when debtor is employed by another Federal agency.

We reviewed one of the claims which had been compromised to determine whether the Center's actions met the requirements of part 103 of the Joint Standards. Temporarily suspended claims were examined to determine whether the Center's criteria for suspending collection actions were proper and whether followup actions were taken when required. We also inquired about the Center's practices regarding incarcerated and deceased debtors and debtors involved in bankruptcy proceedings. We did not examine any debts terminated under section 104.3 of title 4 of the Code of Federal Regulations (CFR) because the case files were in permanent storage and were not readily available.

Our review of the claims by the Government showed that generally the Center was taking proper action to collect its debts. Debtors were sent a series of at least three aggressive demand letters, when appropriate. Claims were being collected by offset when possible. The amounts of installment payments were for the most part reasonable in relation to the sizes of the debts and the debtors' financial conditions. In addition, suspension actions and determinations of uncollectibility were, in our opinion, reasonable and proper. In some areas, however, either improvement was needed or the Center's practices did not conform with the Joint Standards or the GAO manual.

In seven of nine debt cases over \$750 which we reviewed, the Center attempted to secure confess-judgment notes by sending a blank copy of the note used by the Department of Justice with the first demand letter. The purpose of the note was not explained to the debtors nor were they instructed as to the action required. None of the debtors executed the form. One debtor returned the note asking the Center to complete the blanks and return it to him, but the Center took no further action. We made the following suggestions to Center officials.

--The solicitation of a confess-judgment note should be undertaken after the first demand letter, if the debtor indicates he desires to liquidate the debt by installments. This would permit the Center to complete most of the blank parts of the note before it is forwarded to the debtor. He would merely have to sign and date the note.

--The debtor should be instructed on how to execute the note, and he should be instructed also to return the note within a specified time.

--The Department of Justice form for this purpose may be revised to meet the needs of the Marine Corps.

Center officials informed us that they would accept our suggestions.

Efforts to compromise debts

The Center did not compromise any claims during fiscal year 1971, and compromised only five claims during the first 9 months of fiscal year 1972. We reviewed one of the claims compromised. Section 102.9 of the Joint Standards provides that

"*** Agencies will attempt to effect compromises *** in all cases in which it can be ascertained that the debtor's financial ability will not permit payment of the claim in full, or in which the litigative risks or the costs of litigation dictate such action."

Although the Center's written procedures are in accordance with the Joint Standards concerning compromises, the head of the Examination Division informed us that attempts to compromise debts, even of \$200 or less, are not made. The Center does consider a compromise offer if proposed by a debtor. The head of the Settlement Branch believes that any attempt by the Center to effect a compromise would prejudice the case if it becomes necessary to send it to GAO for further collection action. The Center's Commanding Officer believes that it is not a good policy to solicit compromises.

A basic objective of the Federal Claims Collection Act in vesting agencies with debt compromise and termination authority is to cause agencies to perform every act and function in the debt collection process before terminating collection action on a debt or referring it to GAO. Whenever, in accordance with the Joint Standards, final action on a debt appropriately can be taken at the agency level, whether by collection in full, compromise, or termination of collection action, it should be so taken and thus avoid the additional expense to the United States and the time lost in submitting the debt to GAO for further collection efforts.

Timeliness of collection actions

Our examination of active, uncollectible, and temporarily suspended claims showed that the Center should take more timely collection action. The Joint Standards require aggressive collection action on a timely basis with effective followup. Three written demands at 30-day intervals are normally required, unless a response to the first or second demand indicates that further demand would be futile. There also should be no undue delay in responding to any communication received from debtors (4 CFR 102.1 and 102.2).

Our examination of 50 claims under active collection action showed nine instances of excessive delays in sending successive demand letters and in taking required followup actions. The delays in followup actions ranged from 58 days to 22 months after the previous action. In four of the nine instances, action was not taken for over 4 months.

Our examination of 100 uncollectible claims on which collection action was stopped in February 1972 showed delays in processing as follows:

- The Center failed in eight instances to follow up promptly when debtors did not respond to correspondence or the debtor stopped making installment payments. The delays ranged from 46 days to 3 years.
- The Center failed in 13 instances to send timely second demand letters. Delays ranged from 41 days to 3 months after the last previous action, and 10 exceeded 60 days. Since 1970 the second demand letters have been sent within a reasonable time, usually within 40 days.
- The Center failed in 14 instances to send timely third demand letters. These delays ranged from 41 days to 9 months after the last previous action, and three exceeded 60 days.
- The Center failed in 29 cases to determine debts to be uncollectible in a timely manner. The time taken to declare the debts uncollectible after the last collection had been completed ranged from 2 months to 26 months. In nine cases the time was 8 months or longer.

The delays appeared to be caused in part by the Center's method of filing active debt claims. All documents for each active debt claim are placed in separate folders, and all folders are filed alphabetically. This file of active claims contained claims on which one, two, or more demand letters had been sent and claims which were being paid by installments. All but the installment payment claims were tagged to show the date the next collection action was required. In some cases the followup tags apparently became lost, and further action was not taken until the mistake was found. In other cases the claims were merely overlooked when the files were screened for periodic processing.

We suggested that the Center establish a separate file for debts being paid by installments. This would remove all claim files that are not tagged for scheduled future collection action. The Center's staff assured us that our

suggestion would be adopted and that a branch supervisor would be assigned to check active claim files periodically to insure that demand letters are sent when required. Installment files should be monitored at regular intervals to insure that, if payments are not made on a timely basis, collection action will be reinstated.

The Center did maintain a separate file for debt claims on which collection actions were suspended indefinitely for various reasons. Our examination of 98 of these debt claims showed that only two were not properly suspended. There was, however, a definite absence of followup action on 43 of the 98 cases. For example, 19 of 27 bankruptcy cases required some followup action at the time of our review, and seven of the 19 had not been acted on for over 1 year.

We brought the 43 cases to the attention of the Center's officials who took action to send followup letters or to terminate collection action, depending on the circumstances in each case. The Center also changed its filing system. Most suspended cases, which included those with definite and indefinite time limits, are now in the active case files with tags attached to show when followup action is required. The only exceptions are cases awaiting private relief legislation. The Center's change in its filing methods should provide more timely action on this type of claim.

Debt claims workload

The Settlement Branch had 8,448 debt claims in various stages of collection action on February 1, 1972. This figure included large backlogs in the following areas: (1) 1,930 claims for which demand letters had not been sent (a 5-month backlog), (2) 688 uncollectible debt claims awaiting the compilation of documents needed for referral of the claims to GAO (a 6-month backlog), and (3) about 1,400 claims for which the correct addresses of the debtors were unknown. By April 1, 1972, the Center had decreased its workload to 7,048 claims, valued at approximately \$2,211,000. (See app. I.)

The 1,400 claims of unlocated debtors were being held pending attempts to obtain the latest known addresses, but locator action by the Center was given a low priority in

relation to other activities. The Center depends primarily on the Internal Revenue Service for locator services. Marine Corps Reserve lists and the Veterans Administration are also used whenever possible. Section 104.2 of the Joint Standards suggests other sources which may be of assistance, such as telephone and city directories; postmasters; drivers' license and automobile title records; and employers, relatives, and friends. We suggest that the Center evaluate its locator operations to determine whether other sources would benefit its collection efforts.

In the backlog of unlocated debtors, we noted that some of the cases had been held for excessive periods of time without action being taken. For example, in one group of 184 claims examined, we found no indication that the branch had taken any action for periods ranging from 7 months to over 4 years. Of these 184 claims no action had been taken on 92 for periods up to 2 years and on the others from 2 to over 4 years.

Nineteen of the 184 claims are for amounts of \$400 or more. Except in specific cases, this is the minimum amount which may be reported to the Department of Justice for the institution of suit. Since section 2415, title 28, of the United States Code places a 6-year statute of limitations on the institution of suits by the Government on most of the claims established by the Center, some of them may be nearing, or already past, the 6-year limitation.

Twenty of the 184 unlocated debtor cases were for \$25 or less. In a March 6, 1972, decision addressed to the Secretary of Defense, the Comptroller General held that collection action on out-of-service claims for \$25 or less need not be taken unless a notice of exception had been stated by GAO.

The Center should make a special effort to reduce its backlog by separating the claims under \$25 for out-of-service debts and by examining the balance of the claims to determine the status of each in relation to the statute of limitations. According to the commanding officer of the Center, a special task force will be assigned to process the 1,400 claims of unlocated debtors and the 1,930 claims on which no collection action has been taken.

Most Marine Corps debt claims result from administrative errors in accounting for pay. The audit of separated members' pay records is the major source of the discovery of debt claims originating within the Marine Corps. On March 1, 1972, the Claims and Separation Branch had 47,654 unaudited pay records which represented about a 6-month backlog of work. If this backlog could be reduced, we believe that initial collection action could be more timely and effective.

Center officials are of the opinion that the backlogs should decline because of recent reductions in Marine Corps troop strength. The number of debt claims arising from audit activities should also decline after full implementation of the Joint Uniform Military Pay System which has as one of its objectives the elimination of administrative errors.

Collections

We noted that certain collection practices need revision. The Center's demand letters direct debtors to make remittances payable to the Treasurer of the United States and to forward them to the Marine Corps Finance Center. Section 11.4 of title 7 of the GAO manual provides that remitters be instructed, where possible, to make checks or other negotiable instruments payable to the order of the specific organization maintaining the accounts to be credited. We suggest that checks and money orders be made payable to the Marine Corps Finance Center.

We learned that the Deputy Fiscal Director of the Marine Corps directed the Center to instruct debtors to make negotiable instruments payable to the Treasurer of the United States rather than to the Marine Corps Disbursing Officer. The reason for doing this was attributed to congressional inquiries on behalf of debtors concerned over possible personal use of receipts by Center officials. We were informed that no change would be made unless higher authority directed such action.

Section 11.1 of title 7 of the GAO manual requires that collections be placed under appropriate accounting control promptly upon receipt. The Center, however, was accumulating collections and placing them in a safe for several days

before recording them in a logbook, its book of original entry. Collections were recorded on only 33 of a possible 64 workdays during the first 3 months of 1972. The maximum time between recordings was 6 days. We suggested that collections be recorded in the logbook on the day received. The Center agreed.

Collection by offset

Although the Center's procedures contain no provision for offsetting debts against pay due separated members from the armed services, the Center does use the authority given to the Secretary of the Navy under 5 U.S.C. 5514 to offset debts.

Settlement Branch statistics show that 243 debts, valued at \$51,265, were offset in fiscal year 1971 and 232 debts, valued at \$46,175, were offset in the first 9 months of fiscal year 1972. The Center is using this method of collection with reasonable success. For debts determined uncollectible in accordance with 4 GAO 56, the Center notes the debts in the former members' personnel files for possible future offset. We suggest that the Center follow this same practice for debts terminated under section 104.3 of the Joint Standards.

Cost analysis of collection activity

In our November 1969 report, we recommended that cost collection criteria be established to determine the point at which further debt collection action may become economically impractical. The GAO manual (4 GAO 55.3) provides for the establishment of realistic points of diminishing returns beyond which further collection efforts by the agency are not justified.

A cost analysis completed by the Center was directed toward determining the minimum amount of a debt upon which collection action would be initiated rather than the cost to determine the point at which to terminate collection action.

Recommendations to the Secretary

We recommend that the Secretary of the Navy take appropriate action to ascertain that the Center:

1. Follows the GAO manual and its own procedures in the processing of bankruptcy claims over \$400.
2. Retains (either in the claims files or attached to the permanent debt record card) all documents which substantiate its action on a claim.
3. Solicits compromise offers when appropriate and that it particularly does so on claims under \$200 which ordinarily are not for reporting to GAO if collection action is unsuccessful.
4. Stresses the importance of timely collection actions on all claims.
5. Makes a special effort to reduce its backlog so that claims for reporting to the Department of Justice through GAO will not be barred from suit because of the statute of limitations.
6. Changes its collection policies to conform with title 7 of the GAO manual.
7. Performs a cost analysis to determine the points of diminishing returns based on the dollar amount of the debts and collection possibilities.

to be barred, part B, section III(b), instructs the examination clerk to:

"Review the claim to ensure that the prescribed statute of limitations has not expired. If it has, the claimant will be so advised (see sample #3)."

Sample number 3 is a form letter advising the claimant that his claim is barred pursuant to the barring act of October 9, 1940, because it was not filed within 10 years from the date of accrual. This instruction is contrary to 4 GAO 5.1(4). GAO exercises sole jurisdiction in applying the barring provisions of the act of October 9, 1940.

Section VI(a) of the Pay Record Audit Branch procedures provides that all claims received 8 years from the date of first accrual be sent to GAO, but it does not include the conditional phrase "which cannot promptly be approved and paid in the full amount claimed." According to section VI(k) claims not settled within 10 full years after such claims first accrued should be forwarded to GAO for payment approval. We suggest "for payment approval" be deleted.

The procedures for the General Audit Branch and the Claims and Separations Branch do not have provisions for action to be taken on claims required to be sent to GAO, including doubtful claims, claims required to be forwarded to GAO by statute, and reclaims of previously denied claims (4 GAO 5.1). The procedures also lack instructions as to the required content of administrative reports for claims which are sent to GAO (4 GAO 8). We believe the procedures should include, or make reference to, these provisions.

The Center's practice of sending to GAO travel claims involving retroactive modification of travel orders is proper, but the Center should make recommendations as to the disposition of claims as required by 4 GAO 8.2(3). Copies of the original orders and the modified orders should also be included.

We discussed the omissions in the procedures with agency officials. They agreed that provisions for handling claims required to be sent to GAO and instructions for

preparing administrative reports should be included in the General Audit Branch procedures. It was agreed that the same provisions and instructions were not included in the Claims and Separations Branch procedures. Officials, however, did not believe the changes necessary because there are very few claims processed by the Branch which require that they be sent to GAO, and if such claims do arise, the normal operations of the branch provide for review by competent officials.

Recommendations

The Center's procedures for processing payment claims are generally satisfactory. We recommend, however, that the revisions discussed above be made.

CHAPTER 5

REVIEW OF PAYMENT CLAIMS OPERATIONS

During fiscal year 1971 the Center processed 23,927 payment claims, and during the first 9 months of fiscal year 1972, it processed 15,079 payment claims. (See app. II.)

We examined 134 payment claims processed by the three branches in the Examination Division of the Marine Corps during 1971 and 1972 to determine whether the Center's handling of these claims was reasonable and proper and in accordance with title 4 of the GAO manual. Specific attention was directed to whether (1) the payment actions were proper, (2) the Center correctly handled claims required to be sent to GAO for settlement, (3) decisions to handle claims administratively or to submit them to GAO were made at a responsible level, (4) claimants were advised of their right to have GAO review their claims if administratively denied by the Center, and (5) there were any significant groups or classes of claims which could be avoided by strengthening administrative practices or changing statutory provisions.

Claims and Separations Branch

We examined a total of 74 claims which were processed in the Claims and Separations Branch: 54 pay and allowance claims, 10 deceased claims, and 10 naval records correction claims. We found five claims on which final settlements had been incorrectly computed. Three errors were made on pay and allowance claims, and two errors were made on deceased claims. The errors resulted in three underpayments totaling \$33.90 and two overpayments totaling \$155.83. No errors were found in the 10 naval records correction claims.

The head of the Claims and Separations Branch informed us that claimants are informed of their right to have GAO review their claims if they are denied by the Center. No claims, however, have been sent to GAO from this branch in the last 3 years. We believe that the decision of whether to forward a claim to GAO is made at a fully responsible level.

General Audit Branch

We examined 50 travel claims processed by the General Audit Branch and found seven incorrect payments due to improper computation of mileage. Four claimants were overpaid a total amount of \$11.84, and three claimants were underpaid a total amount of \$6.74. One of the claims involved a retroactive modification of a travel order and was submitted to GAO for approval before being paid, as required by regulations.

The head of the General Audit Branch informed us that claimants are advised of their right to have GAO review their claim if it is denied by the Center, but only after a second inquiry is made on the same claim. In this regard, 4 GAO 5.1(3) requires that reclaims be sent to GAO, unless it is determined administratively that the action taken was clearly in error and properly can be corrected by the agency.

Pay Record Audit Branch

We examined 10 claims received by the Pay Record Audit Branch from Marine Corps reserve members and found two claims which had been incorrectly computed. One member had been overpaid while serving on active duty. Although a pay adjustment authorization was issued for \$35.48, to compensate the Government for excess leave taken by the reservist, the proper payment should have been \$44.58, an error of \$9.10. The second error involved a reservist's claim for lump-sum leave and other moneys due upon release from active service. The reservist was not paid \$32.01 for 3 days of unused leave to which he was entitled.

We found no claims in this branch which we considered doubtful, thus required submission to GAO. Decisions on doubtful claims appear to be made at a responsible level. We did not find any reclaims of previously denied claims. We were informed that, if a claimant does not agree with the initial denial and requests reconsideration, the claim is reviewed. If the action taken by the Center is unchanged, the claimant is informed of his right to have GAO review the claim.

The errors in computation of payments made by the Center were for relatively small amounts and were due primarily to oversights by the Claims examiners. We believe the errors could have been avoided by proper supervisory review. We noted no groups or classes of payment claims which could have been avoided through strengthening of administrative practices or changes of statutory provisions.

SUMMARY OF DEBT COLLECTION ACTIVITY

	July 1, 1970, through June 30, 1971		July 1, 1971, through March 31, 1972	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Debts for collection	7,073	\$1,471,463	7,147	\$1,552,706
Debts cleared by:				
Informal in- quiries	11	\$ 1,117	1	\$ 96
Set off or ad- justments	243	51,265	232	46,175
Cash collec- tions	2,426	268,609	2,113	217,020
Travel settle- ments	<u>25</u>	<u>2,407</u>	<u>8</u>	<u>1,921</u>
Total cleared	<u>2,705</u>	<u>\$323,398</u>	<u>2,354</u>	<u>\$265,212</u>
Other activity:				
Remittances re- ceived	12,959	\$340,878	10,467	\$284,417
Debts compro- mised	-	-	5	2,223
Debts terminated	185	32,888	130	46,266
Debts referred to GAO	806	330,494	937	518,289
Debts under \$200 determined un- collectible	2,387	165,089	5,681	443,050
Debts outstanding at April 1, 1972	-	-	7,048	\$2,210,651

VOLUME OF PAYMENT CLAIMS PROCESSED

<u>Type</u>	<u>July 1, 1970, through June 30, 1971</u>	<u>July 1, 1971, through March 31, 1972</u>
Pay and allowance claims	14,282	8,736
Travel claims	8,221	5,578
Deceased claims	1,078	392
Marine Corps Re- serve member claims	174	253
Record corrections by Board for Correction of Naval Records	<u>172</u>	<u>120</u>
Total	<u>23,927</u>	<u>15,079</u>